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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 001725

SIPDIS

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FOR EE/EA, EGAT FOR WALTER HALL
DOE FOR CHARLES WASHINGTON

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TAGS: [ENRG](#) [ECON](#) [GG](#) [AM](#) [RU](#)

SUBJECT: GOAM FORMALLY ACCEPTS SALE OF NATIONAL ELECTRICAL
NETWORK TO RAO-UES

REF: YEREVAN 1234

Classified By: CDA A.F. Godfrey for reasons 1.4 (b,d).

Summary

[¶](#)11. (C) On September 23, Armenian Minister of Energy Armen Movsisian announced that the GOAM has consented to the formal sale of the national power grid Electricity Networks of Armenia (ENA) to Interenergo B.V., a subsidiary of Russian energy giant RAO-UES. According to news reports, the GOAM consented to the sale after RAO-UES agreed to accept the obligations of the current owner Midland Resources Holding (MRH). This sale, which the Minister said will be finalized in the coming weeks, formalizes MRH's de facto transfer of ownership of ENA to RAO-UES which reportedly occurred in July 2005 (reftel). The process followed in this case demonstrates the limits of the authority and effectiveness of the Public Services Regulatory Commission (PSRC) and the lack of transparency within the Armenian energy sector. End Summary.

The De Facto Sale in July 2005

[¶](#)12. (C) In July 2005, InterRAO, a partially owned subsidiary of RAO-UES, reportedly purchased ENA from MRH for USD 73 million and took full control of Armenia's electrical distribution network under a management contract (reftel). According to Armenian law, the ENA license and the ENA privatization contract, both the Ministry of Energy and the PSRC must approve any transfer of control of ENA. The July transaction was not sanctioned by either the Ministry of Energy or the PSRC and appeared to have been concluded without their knowledge (reftel). The World Bank and USAID criticized the transaction.

Midland Requests Approval of the Sale

[¶](#)13. (C) Over the subsequent weeks, the Ministry of Energy and the PSRC exchanged a number of letters with MRH. These exchanges failed to clarify the nature of the transaction. After first denying PSRC and Ministry of Energy jurisdiction, on September 9, MRH sent letters to the PSRC and the Ministry of Energy citing both the Armenian Energy law and the privatization contract, requesting written consent for the sale of 100 percent of the ordinary common shares of ENA from Midland Resources to Interenergo B.V., a company registered in the Netherlands, Antilles.

GOAM requires that RAO-UES assume Midland's liability

[¶](#)14. (C) According to PA Consulting, a USAID contractor working on reform within the energy sector, on September 14, the President tasked the Ministry of Energy, the Ministry of Justice, the Ministry of Finance and Economy and the PSRC with developing a common set of GOAM requirements for approval of the sale. On September 19, PA Consulting reported to us that the GOAM had come to internal agreement on the sale. The GOAM's "number one requirement" for approval of the sale was that RAO-UES accept 100 percent of the responsibility and liability for ENA. PA Consulting observed that "given that RAO only owns 42 percent of the InterRAO and InterRAO owns Interenergo B.V., it would be difficult for RAO to accept 100 percent liability for Interenergo B.V." (Note: The remaining 58 percent of the InterRAO shares are reportedly owned by Russian businessmen and the Russian government, both of whom are likely to support the sale.)

GOAM Accepts the De Facto Deal

[¶](#)15. (C) At a press conference on September 23, Armenian

Minister of Energy Armen Movsisian announced that RAO-UES has agreed to accept the obligations of ENA's current owner MRH and that the sale would be finalized in the next 40-45 days. It was not clear from the Minister's statement whether RAO-UES agreed to accept 100 percent of MRH's responsibilities or only 42 percent which would be commensurate to their ownership in Interenergo B.V. At the same conference, in an apparent effort to refute the claim that Russia is consolidating its control of the Armenian energy sector, the Minister announced that the GOAM agreed to accept Iranian assistance to renovate a gas-fired electricity generation station near Yerevan.

No Mention of the PSRC

16. (C) While there is no official text of the Minister's press conference, according to all available reports the Minister did not mention the PSRC. Since July 2005, members of the international donor community, including the USG, have urged the PSRC to become actively involved in the GOAM review of the de facto sale. According to PA Consulting, however, the PSRC was unwilling to assume a leadership role in this process.

Comment: Russia Wins the Shell Game

17. (C) The sale of ENA to RAO-UES will likely be completed and formalized without further incident. This transaction further enhances Russia's already significant level of control over the Armenian energy sector. Currently RAO-UES controls approximately 80 percent of generation capacity in Armenia.

18. (C) It is disappointing that the sale of ENA was not carried out in a transparent manner. The GOAM's official approval of the sale was a face-saving maneuver confirming the de facto sale that was completed in July 2005. While it is positive that there was some sort of government review of the transaction, the failure of the PSRC to take an active role in the review process calls into question its credibility as an independent regulator. We should consider whether further assistance to the PSRC is a useful investment.
GODFREY